Statement on Dissenting Vote at October 29, 2014, Meeting of the Federal Open Market Committee*

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* I thank David Fettig, Terry Fitzgerald and Sam Schulhofer-Wohl for their comments.

Earlier this week, I dissented from the Federal Open Market Committee (FOMC) decision. I felt that the FOMC needed to reduce possible downside risk to the credibility of its 2 percent inflation target by taking more purposeful steps to move inflation back up to 2 percent. In this statement, I will elaborate on the thinking behind my decision.

At the launch of the reduction in asset purchases in December 2013, the FOMC statement said that the Committee would be "monitoring inflation developments carefully for evidence that inflation will move back toward its objective over the medium term." At this stage, I see no such evidence. In my assessment, the medium-term outlook for inflation has shown no overall improvement since last December and, indeed, is arguably worse. Failing to act in response to this subdued inflation outlook increases the downside risk to the credibility of our 2 percent inflation target. Market-based measures of longer-term inflation expectations have fallen recently to unusually low levels, a decline that I believe reflects that kind of increased downside risk.

As we have seen in Japan and may now be seeing in Europe, the credibility of central bank inflation targets cannot be taken for granted. Rather, central banks need to take actions on an ongoing basis to ensure that inflation stays at target. In light of the evolution of the data over the past few months, I believe we needed to take such actions on Wednesday.

There are a number of possible actions that I would have seen as responsive to the evolution of the data. Let me describe two in particular. First, the Committee could have continued to buy $15 billion of longer-term assets per month. Second, it could have committed to keeping the target range for the federal funds rate at its current level at least until the one- to two-year-ahead inflation outlook has risen back to 2 percent, as long as risks to financial stability remain well-contained. These actions would have put upward pressure on the demand for goods and services and on prices. Just as importantly, these actions would have communicated that the Committee is determined to do what it takes to push inflation back to 2 percent as rapidly as is possible.

Of course, there are costs and benefits to every monetary policy action and inaction, and assessing those costs and benefits is by no means straightforward. On this occasion, my assessment differed from that of my colleagues. Such occasional differences in perspectives are, I think, hardly surprising given the complicated nature of the decision problem that we face. But those differences should not obscure the collective commitment that my FOMC colleagues and I all share to the dual mandate objectives of price stability and maximum employment that Congress has established for the Committee. I look forward to working with my colleagues in future meetings, under Chair Yellen's leadership, to achieve those objectives.